

Message Text

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ACTION EA-12

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E.O. 11652: GDS
TAGS: OVIP (FUKUDA, TAKEO)
SUBJECT: FUKUDA VISIT PAPER: JAPAN'S BALANCE OF PAYMENTS

1. JAPAN'S CURRENT ACCOUNT SURPLUS BALLOONED TO \$11 BIL
IN CALENDAR YEAR 1977, FROM \$ 3 3/4 BIL THE YEAR BEFORE.
GIVEN THE SURPLUS OF \$3 1/2 BIL IN JAN AND FEB THIS YEAR
(SEASONALLY ADJUSTED), THE FIRST QUARTER 1978 CURRENT
ACCOUNT SURPLUS SEEMS DESTINED TO SHOW FURTHER EXPANSION.

2. JAPAN HAS FORECAST THAT IN FY 78 (BEGINNING APRIL 1,
1978), THE CURRENT ACCOUNT SURPLUS WOULD DECLINE TO \$6 BIL.
IN THEIR RECENT TRADE DISCUSSIONS WITH THE EUROPEAN COM-
MUNITIES, THE JAPANESE INDICATED THAT THEY ANTICIPATED
THAT THE CURRENT ACCOUNT SURPLUS WOULD DECLINE BY ONE-
THIRD IN FY 78 FROM THE FY 77 LEVEL, WHICH IS NOW EXPECTED
TO REACH \$13-14 BIL. SINCE THIS IMPLIES A CURRENT SURPLUS
IN FY 78 OF \$8 1/2-9 1/2 BIL, CONSIDERABLE UNCERTAINTY HAS
BEEN INTRODUCED REGARDING THE EARLIER FORECAST. HOWEVER,
EITHER FORMULATION SUGGESTS BOTH (1) A LARGE SURPLUS FOR
CALENDAR YEAR 78 AND (2) A SUBSTANTIAL DECLINE IN THE SUR-
PLUS LATER IN THE YEAR.

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3. JAPAN'S LARGE CURRENT ACCOUNT SURPLUS REFLECTS
PRIMARILY DEVELOPMENTS IN ITS FOREIGN TRADE ACCOUNTS. OVER
THE PAST YEAR OR SO, TWO FACTORS HAVE DOMINATED. THE
FIRST IS THAT EXPORT RECEIPTS HAVE BEEN EXPANDING PRIMARILY
AS A RESULT OF EXPORT PRICE INCREASES, WHILE EXPORT
VOLUMES HAVE GROWN AT FAIRLY MODERATE RATES. EXPORT
VOLUMES MAY HAVE GROWN AS LITTLE AS 3 PERCENT LAST YEAR

ALTHOUGH THE DOLLAR VALUE WENT UP NEARLY 20 PCT. IT IS NORMAL THAT EXPORT PRICES SHOULD INCREASE FOLLOWING THE APPRECIATION OF THE YEN (WHICH AMOUNTED TO 18 PCT LAST YEAR AND 8 1/2 PCT THUS FAR THIS YEAR). HOWEVER, THESE AND PROBABLE FURTHER EXPORT PRICE INCREASES SHOULD MEAN THAT JAPANESE EXPORTS WILL BE LESS COMPETITIVE IN THE FUTURE. THE SECOND DOMINANT FACTOR IS SLOW IMPORT GROWTH: IN VOLUME TERMS, JAPANESE IMPORTS ARE ESTIMATED TO HAVE GROWN ABOUT 3 1/2 PCT LAST YEAR (THE DOLLAR VALUE WENT UP OVER 9 PERCENT). THIS IMPORT PERFORMANCE UNDERSCORES THE IMPORTANCE OF SUSTAINED DOMESTIC RECOVERY, PARTICULARLY IN THE INDUSTRIAL SECTOR WHICH UTILIZES A LARGE PROPORTION OF JAPANESE IMPORTS.

4. MANY OF THE ACTIONS THAT JAPAN HAS TAKEN TO REDUCE THE CURRENT ACCOUNT SURPLUS -- RANGING FROM ACCEPTING SUBSTANTIAL YEN APPRECIATION THROUGH THE MORE SPECIFIC ACTIONS TAKEN INCLUDED IN THE STRAUSS-USHIBA AGREEMENT -- WILL TAKE TIME TO BEAR FRUIT. AT BEST IT WILL BE SOME MONTHS BEFORE A DECISIVE REDUCTION IN THE SURPLUS IS EVIDENT.

5. THUS A GOOD DEAL OF ATTENTION IS BEING DEVOTED IN JAPAN TO MEASURES TO GET THROUGH THE INTDRIM, ANDNXOST IMPORTANTLY, TO AVOIDING EXCESSIVE APPRECIATION OF THE YEN DURING THAT PERIOD. ONE ACTION HAS BEEN TO TRY TO PERSUADE EXPORTERS TO MODERATE THE VOLUME OF JAPAN'S EXPORTS IN FY
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78 TO THE LEVEL OF FY 77, ALTHOUGH ALLOWING SOME CONTINUED GROWTH OF EXPORT VALUES. (EXPECTATIONS OF SUCH PRESSURE FOR RESTRAINT PROBABLY CONTRIBUTED TO THE LARGE TRADE SURPLUSES IN JAN AND FEB, AS EXPORTERS ACCELERATED EXPORTS BEFORE THE NEW FISCAL YEAR BEGAN.) ANOTHER FOCUS HAS BEEN ON ACCELERATION OF EMERGENCY IMPORTS, SUCH AS OIL, URANIUM, NON-FERROUS METALS, AIRCRAFT, ETC. WHILE SUCH MEASURES DO NOT PROVIDE A LASTING CORRECTION OF JAPAN'S LARGE CURRENT ACCOUNT SURPLUS, THEY DO PROVIDE BRIDGING UNTIL THE MORE FUNDAMENTAL ACTIONS IN PLACE HAVE THEIR EFFECT.

6. IT WOULD BE USEFUL FOR US:

--TO EXPRESS UNDERSTANDING THAT MANY OF THE ACTIONS JAPAN HAS TAKEN TO REDRESS ITS CURRENT ACCOUNT SURPLUS WILL NOT BE EFFECTIVE IMMEDIATELY.

--TO INDICATE THAT WE ARE PREPARED, AS APPROPRIATE, TO ASSIST IN BRIDGING ACTIONS UNTIL MORE FUNDAMENTAL CORRECTIVES HAVE THEIR EFFECT. (WE ARE NOT IN A POSITION TO ENDORSE EXPORT RESTRAINTS.)

--TO REAFFIRM THE IMPORTANCE TO BOTH COUNTRIES OF A SIGNIFICANT REDUCTION, CONTINUED MOVEMENT TOWARD EQUILIBRIUM, AND ACCEPTANCE OF A DEFICIT IN JAPAN'S CURRENT ACCOUNT POSITION. PUBLICITY ABOUT PROGRESS IN THIS DIRECTION WILL ALSO BE IMPORTANT. MANSFIELD

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